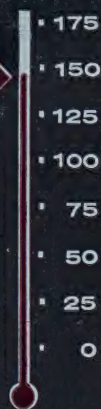


AR39

Consumers lose confidence

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File: W.R. Grace & Co.

JUN 13 1958

J. Peter Grace: How do you tie shipping, chemicals, banking, trading into a half-billion package? (Management)

W. R. Grace Thrives by Getting



GRACE LINERS are still an important part of W. R. Grace & Co.'s empire. Here a "Santa" ship takes on fruit at Valparaiso, Chile.



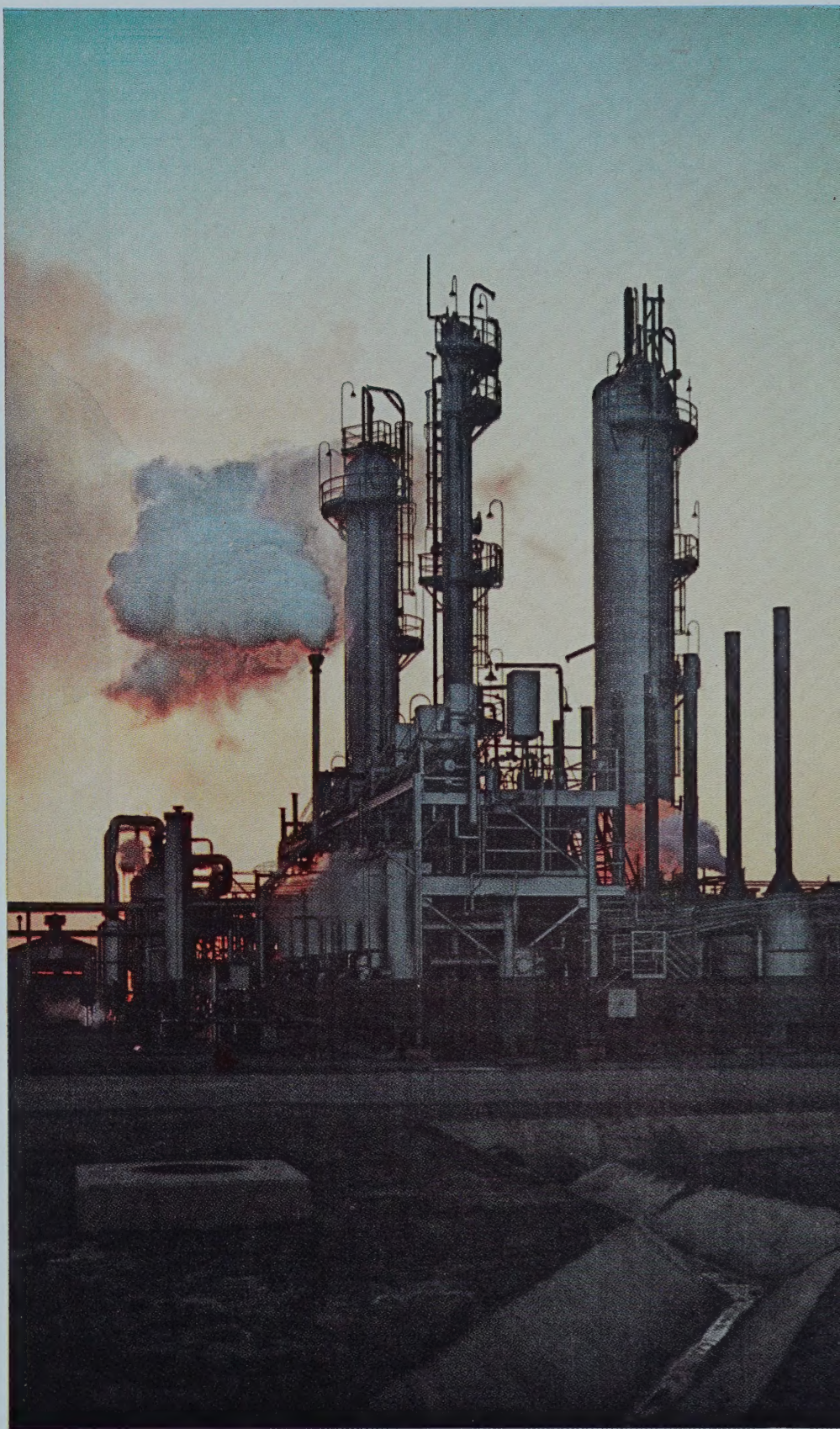
Complex

"Young Peter" Grace has steered the staid, century-old shipping company into a giant complex with interests in everything from chemicals to advertising to candy.

Earlier this month, W. R. Grace & Co. simultaneously dedicated two new projects. It launched a \$23-million liner, the new Santa Paula, to carry passengers and freight between the U.S., the Caribbean, and the west coast of South America; and it formally opened a new \$18-million plant in Baton Rouge, La., for the production of low-pressure polyethylene.

Perhaps nothing else could so dramatize the change that has taken place in the sedate "Old Lady of Hanover Square," a landmark in downtown New York. A decade ago, a new Grace ship would have occasioned no surprise. W. R. Grace is still largely associated in the public mind with the Grace Line, whose ships have plied between New York and South America for a 100 years. But a ship line operating a chemical plant is something else. Eyebrows jerked upwards when Joseph Peter Grace, Jr., (cover) who became president of the company in 1945, announced that he intended to take the company deeply into chemicals.

Continued



CHEMICALS are coming up fast, now represent slightly more than half the company's assets. Above is part of Grace's ammonia-urea production plant in Woodstock, Tenn.

SOUTH AMERICAN sugar is sold in world markets, is used in local candy plants, and produces basic raw material for Grace's expanding paper industry.

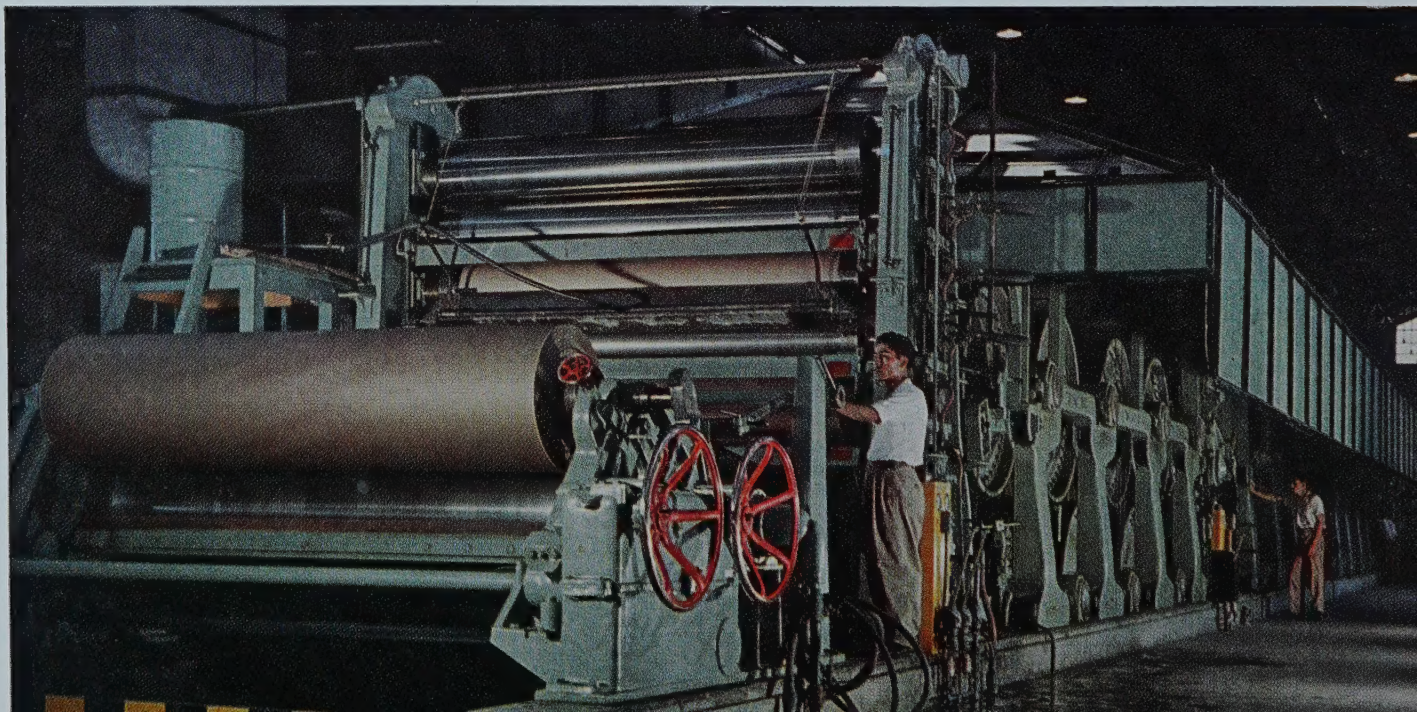


TEXTILES, mostly for the Latin American market, are produced by Grace subsidiaries. This one is located at Vitarte, Peru.



BISCUIT plant at Periera, Colombia, mixes and bakes its products in a modern continuous vacuum cooker.

PAPERMAKING machines at Paramonga, Peru, use bagasse (sugar cane waste) in the production of kraft paper and paperboard.



Within a half-dozen years, W. R. Grace & Co. has changed directions considerably. The ship line is bigger than ever—yet today it represents less than 14% of the company's assets, against over 56% in 1950. The company's Latin American group of businesses has almost doubled in volume; but in the same period its percentage of the over-all company capital has dipped from 43% in 1951 to less than 20% today. The chemical business, however, represents 55% of assets, where in 1950 it was a mere 3%.

- **Far Reaches**—That rough breakdown gives little indication of the wide-flung empire that Peter Grace (right), now 44, but still called Peter by his staff and on occasion referred to as Young Peter, presides over with a frenetic energy and a fantastic grip on detail.

Under the Grace banner today are combined:

- A ship line, one of the most profitable of all American flag lines.

- An outdoor-advertising company, second-ranking in the country.

- A chemical complex, producing a wide range of products from organic fertilizers to petrochemicals.

- A bank, with deposits over \$170-million and one of the fastest rates of growth in New York City, and an insurance brokerage company.

- A half-interest in Panagra, an airline, and a constant squabble with its partner (Pan American) there.

- An agricultural and manufacturing sub-empire in Latin America that produces sugar, paper, paint, coffee, textiles, biscuits, and tin.

- An extensive trading operation, in which Grace also acts as sales representative for several other major American companies.

- **Invisible Ties**—The apparent disparity between activities sometimes baffles outsiders. At an American Management Assn. seminar last summer, Grace was one of a half-dozen complex companies chosen as case problems to determine proper planning programs. The team of conferees assigned to W. R. Grace concluded that it was impossible to plan for the company, and recommended that the Grace problem be dropped from the program.

Even in a world where diversification is a watchword, Grace has diversification within diversification. Through about 75 subsidiaries and affiliates it has anywhere from a finger to a whole arm in 16 different major industries. Outsiders still want to know, Peter Grace notes wryly, "whether we're a holding company, an investment trust, or an international economic accident."

To a degree, the company is all three—if one adds to that mix 100-odd years of deliberately logical development, a

high degree of flexibility, and an unusual family.

Until 1945, W. R. Grace was clearly a reflection of the first two Grace men to run the company—William Russell Grace, who started the company in 1854 in Peru, built up a worldwide trading and shipping outfit, and his son, Joseph P. Grace, who created the Latin American industrialization of the company. Since 1945, the company has been re-made in the image of Peter—grandson of the founder—who took over the presidency at 32.

I. The Third Generation

Peter Grace is a stocky, moon-faced man, who talks with a slight lisp, and even in repose never seems entirely still, and who thinks nothing of calling his top executives from halfway around the world at 4 a.m. to discuss an operating problem.

Some Grace men contend that Peter never sleeps. Although almost every group and subgroup in the empire operates with a high degree of autonomy, operating executives say that somehow Peter knows what's going on every minute in all of them, by way of an incredible volume of reports that flow to him every day, no matter where he is. Over the years, he has averaged about 150 days a year in travel—and he doesn't like traveling. But Grace operates in 24 countries, has substantial business in 15 of them. The people on the ground want to see the top man—and he wants to see what's going on. He travels with two secretaries, dictates almost constantly as he moves. Headquarters men know they had better be ready with an answer for almost anything when the hourly collection of cables comes in.

- **Two Problems**—When he took over at the end of World War II, Peter faced two problems. The first was to get out of the shadow of his predecessors in an organization so encrusted with tradition (the last of the roll-top desks disappeared only two years ago) that it resembled more an exclusive club than a business headquarters.

The second problem was more critical. With the upsurge of technological competence during and after the war, it became obvious that Grace was going to get left out of the race unless it changed somewhat. Grace was a U.S. company—but its shipping, trading, and manufacturing activities were concentrated in South America, most heavily in Peru, which itself held only 6% of the Latin urban market. Its U.S. businesses—then mainly the bank—were, in Peter's words, "only frosting on the cake." Since its start, the company had been closely held (even today, the Grace and associated families still control about 30% of the voting stock



PETER GRACE, grandson of the founder, runs the company with a frenetic energy.

through a complicated series of trusts), but it would soon be necessary to seek more public financing. To U.S. investors, South America generally implied "natives," "revolutions," and wild economic fluctuations.

- **Why Chemicals?**—Peter wanted to get the bulk of the business back in the U.S., pick up a store of technical competence, and in turn use that to upgrade its Latin American activities.

So Grace picked chemicals—because it was one field with no limit in sight, where securities generally sold at a premium, where there was no end to product possibilities—and where W. R. Grace already had a toehold. The company originally started as a shipper of guano for fertilizer, later added Chilean nitrates, and as early as 1908 had started a company in the U.S. to mix and sell fertilizers, insecticides, and other agricultural chemicals.

- **Preliminaries**—Actually, Grace didn't "get into" chemicals in an important way until almost 1953—though it has by now invested \$180-million in that field. Before that, it had made a couple of other moves.

It picked up an outdoor advertising company, Foster & Kleister, simply because it was a good buy, and for a while Grace was looking for almost any kind of profitable domestic operation. As it turned out, Foster & Kleister was an exceptional buy. Concentrated in the fastest growing western states, and run by men who knew the business, its

volume and profit have risen steadily. Grace put \$3.8-million in cash into it, borrowed another \$4-million on long term, got back all its own cash investment from profits within three years.

• **Early Flops**—Other early acquisitions didn't work so well—but may have resulted in more profound changes.

Shortly after the war, W. R. Grace also bought up a couple of companies distributing agricultural machinery. The company had traded in farm machinery in South America, assumed it could do the same in the U.S., and the market looked good. But here Grace fell on its face. It staffed the new acquisitions with old-line Grace men who had grown up in the shipping and trading business, but who did not understand the domestic market for farm equipment. These companies were unloaded early in the game, but Peter Grace decided from then on to get the people needed before making a new move, rather than try to retrain old-timers. That meant bringing in a batch of new skills from the outside, a shattering of precedent that created a morale problem.

• **Break With Tradition**—Historically, every Grace executive started in the mail room, was shifted from operation to operation until he learned the whole breadth of the company. Every division and department was fully informed of everything that all the others were doing, and an executive was expected to be able to step in anywhere he might be needed at any time. The influx of specialists (in 10 years the number of men with technical degrees has increased from 50 to 1,000) jockeying with old-line generalists caused an unhappy shop for a while, since no one knew how the change would end.

• **New Blood**—Two things eased the situation. At the top level, many of the old-timers were at or nearing retirement age, and intermediate levels were surprisingly thin. The entry into specialized, and for Grace exotic, fields brought about a decentralization as extreme as any in U.S. industry. For instance, the "chemical group" operates in effect as six separate companies.

Today, most of the people in key positions are "new men." A number of them arrived via acquisitions during the past five years. But at least 80 others at the top two levels have been brought in from the outside since Peter became president. Peter Grace, a bright and ambitious young man himself, likes to hire other bright ambitious young men, push them up as fast as they can go.

II. Road to Acquisition

Without any real background in chemicals, or research facilities, or real offshoots of other business that could

be expanded, Grace started the acquisition route, narrowed its first search down to Davison Chemical Co. In 1950, Davison was doing about \$35-million a year, largely in two fields that Grace liked: (1) agricultural chemicals, which Grace already knew a little about, and (2) catalysts for the petroleum industry, which looked like a wedge into the burgeoning petrochemicals.

Grace started buying Davison stock quietly on the open market, by the end of 1951 had picked up almost 19%—and two seats on the Davison board. By the end of 1953, Davison sales were up to \$56-million, and Grace had majority control, with 63.5% for which it had paid about \$21-million in cash and Grace stock. In May, 1954, the two companies merged.

• **Chemical Line-Up**—At the same time, Grace had been moving into the field from other flanks. In 1952, it announced plans to build a \$20-million nitrogen products plant near Memphis. That plant finally went on stream in 1954, the same year that Grace also merged with Dewey & Almy.

Today, the chemical divisions line up this way:

Grace Chemical Co., produces ammonia and urea, used for fertilizers and industrial chemicals.

Dewey & Almy Chemical Co., makes container sealing compounds, battery separators, paint lattices, adhesives.

Cryovac Co., produces Cryovac, a flexible transparent film, airtight and shrinkable, used extensively for food packaging.

Davison Chemical Co., a major producer of petroleum catalysts, silica gels, superphosphates, mixed fertilizers, and thorium for the AEC.

Dewey & Almy Overseas, produces sealing compounds and Cryovac, in England, France, Italy, Australia, Argentina, and Brazil, and handles worldwide exports of Dewey & Almy.

Polymer Chemicals Co., just starting production of low-pressure, high-density polyethylene.

Grace Chemical Research & Development Co., a special center to do research not related to that of the operating divisions, which do their own.

Although there's some centralization among these—particularly in finance, industrial and public relations, and to a degree in research—each operates autonomously. There's no consolidation of sales or purchasing, for instance, since each sells to different markets, uses different raw materials. There's very little business among the divisions since each has little the others need, although Davison can take some ammonia from the nitrogen division, and does make catalysts for the process used by the polyethylene plant.

How well is Grace doing with its

chemical complex? So far, pretty well, although it has some problems. Its volume of about \$180-million in 1957, represents about 39% of Grace's total volume of \$460-million, puts it about ninth in rank of U.S. chemical companies after four years.

However, it has some current—and Grace assumes temporary—weak spots. Fertilizer business is off generally, in both volume and profits. Lower volume in cans has meant less market for its can sealing compounds. The big nitrogen plant was announced in 1952, when nitrogen products were in short supply—but had its first full year in 1955 when the situation swung from shortage to oversupply. Grace thinks that it's in a somewhat better position here than most of the industry though. For one thing, it converts some 40% of its ammonia output to urea. And the Memphis plant sits in the distribution center of a rich area for farm supply, livestock feed, industrial use.

The new 50-million-lb. capacity poly plant is largely a gamble, at the moment. Although the market is not yet proved, the industry thinks enough of the new plastic so that between Grace and some 13 competitors, about 400-million lb. of capacity for low-pressure poly will come in within a year. Grace chemical men hope to have the plant operating at capacity by the end of 1958—but even the most optimistic of them do not expect the new operation to show a profit within two years.

One of its other plastics, Cryovac—which alone did \$30-million domestically last year—has the bulk of its special market. And Davison still leads the field in production of petroleum refining catalysts.

III. Charting New Growth

Meanwhile, Grace has been getting even deeper into South America. For 100 years, almost all the company's business hinged on Latin America. The ship line, the bank, the insurance brokerage, all developed as offshoots of the north-south trading. Latin America, Peter Grace is convinced, is just really getting started. Its population, already over 170-million, is increasing at a rate of 2½% a year, compared with the 1½% in the U.S. Urban concentration—bringing with it a higher demand for goods and services—is increasing at a 5% annual rate.

• **Operations Pattern**—For the way Grace has historically operated there, on a theory of multiple profits, take the case of some of its Peruvian operations.

At Paramonga, Grace grows cane, grinds it and refines the sugar. Byproduct molasses is made into alcohol in its own distillery. The waste cane fiber is converted into pulp and paper, and in turn into multi-wall bags and card-

board boxes. Grace sugar is packed in Grace bags, shipped on Grace trucks and ships, stored in Grace warehouses, used by Grace candy and biscuit plants, wholesaled and retailed in Grace stores. Machinery for the complex is supplied by a Grace subsidiary.

The concentration has always been on the west coast—in Peru, Chile, Colombia, and Bolivia, in that order. In those countries, Grace has become a part of the national life—so much so that when Bolivia nationalized tin mines of its own citizens in 1952, it left the Grace mines alone. Of 14,000 Grace employees in Latin America, only 175 are non-Latins, only 55 of these Americans. (Americans go only when they have special skills not available on the grounds—usually technical or financial—or when they are making the rounds as part of a long training cycle.)

- **Local Production**—Though Grace still runs a large export-import and trading business—annual volume fluctuates between \$75-million and \$100-million—that side has been eclipsed by direct local production. The roster of products is a long one, ranging from textiles to electric light bulbs, to building materials to canned foods.

Ten years ago, textiles were easily the top category, but have since slipped considerably. Today, sugar leads, particularly on profits. Grace doesn't consider sugar as a growth industry, but its facilities have probably the lowest production cost in the world, lets them compete easily in the world market despite price fluctuation.

- **New Approach**—South American business has been run from New York only by consultation. Each country has its own area manager. Credit, sales, personnel and marketing problems vary from country to country; competition is with local, not international, companies; and business is done on a much more personal plane. The only over-all rules: Make a profit, keep out of politics. Currency problems do not bother Grace. What it loses on currency in one year, it picks up in another.

But the approach to South America is changing also. The keys: paper and chemicals.

- **Paper Empire**—Grace got into the paper business out of desperation. In the 1930s the bottom fell out of the sugar market. The idea of using bagasse—waste left after the sirup has been squeezed out of the cane—for pulp had been talked about, but Grace engineers developed the first practical process for using bagasse, for paper production. Its first bagasse-pulp plant opened in Peru in 1940, and last year, Grace produced about 30,000 tons of paper and paperboard at Paramonga, compared with 10,000 tons in 1950.

Now Peter sees big things for paper. In fact, he figures that within a decade

Grace will be primarily a chemical and paper company. Grace already ranks as No. 2 papermaker in the southern hemisphere, and expects to be first within two years. It's expanding its current facilities, putting up other bagasse-paper plants in Puerto Rico and Colombia, planning one in Cuba, and setting up a plant in Brazil (based on native eucalyptus trees rather than cane) which will turn out quantities comparable to its bagasse production. In Mexico, Grace has just bought a \$2-million boxmaking plant, plans a bagasse-paper mill.

Consumption of paper in South America today—about 20 lb. per capita—is among the lowest in the world. But illiteracy is being cut rapidly, and the increase in paper use is running twice the growth of the urban market.

Peter figures that growth in the South American paper business won't be affected by the current worldwide decline in the industry. Grace has three advantages for the coming market: It's there, it's known, and local governments are more than willing to cooperate with the company on local production to save a drain on currency for imports. U.S. and European paper production is geared technologically to northern woods—Grace pioneered in production from local materials like bagasse and eucalyptus, knows how to use the inexpensive local materials; geography works for them—shipping costs alone prevent northern producers from dumping excess on the Latin market.

- **South With Chemicals**—Now that it has picked up technical knowledge, Grace is moving south with chemicals. In Trinidad, a new nitrogen plant is going up. Peter figures the new plant has a natural price protection—low shipping costs, low production and labor costs, and cheap gas. In Peru, an alkali project is being built to make caustic soda, chlorine, and soda ash. In Brazil, Grace, in cooperation with two large German companies, is getting into DDT, chlorine, solvents, detergents, and metallic alloys. In Puerto Rico, Grace will produce high-purity silicon, jointly with a French company.

Says Peter: "From now on we'll go anywhere the market for chemicals and paper takes us." The influx of new technical industries is creating one transition problem, though, very similar to the one that's now finished at headquarters. The men running the new operations are technicians, not traders, and again "new Grace" is impinging on "old Grace." As a result, the paper and chemical operations are being divorced from the old area groupings and the reorganization may be ruffling some feelings.

Even the century-old ship line—less amenable to change because of rigid government regulation—is becoming

more "new Grace." Though the ship line will, over the next decade, represent an increasingly smaller portion of Grace's total assets, it too is gearing up for a far greater expansion of traffic between the two continents.

IV. Steamship Expansion

Grace Line has always been profitable. But the near monopoly it once enjoyed between U.S. ports and the west coast of South America was exploded after World War II. South American countries, bitter about the short shrift they got when bottoms were scarce, during and immediately after the war, decided to protect themselves from then on. Venezuela, Chile, Colombia, and Ecuador, among others, have since established their own national ship lines—these plus a Dutch line, a Danish line, and Alcoa Steamship now take between 40% and 50% of the North-South traffic.

- **On the Ways**—Even with a smaller share of the traffic, the line's business keeps moving up. For 1957, revenue jumped to a record \$84-million, and as far as the company is concerned that's only the beginning of a steadily growing business.

Last year, Grace signed contracts with the U.S. Maritime Commission for replacement of almost its entire fleet over the next decade, a program that will increase its capacity by at least 50%. The new passenger-cargo liners, the Santa Rosa and the Santa Paula, are the first steps in the program. Grace figures that with the U.S. constantly having to import more of South America's vast store of raw materials—and in return sending more packaged goods south—its own loadings will increase at a 9% annual rate.

The ship program won't affect the rest of the company's capital expansion because, under the U.S. construction subsidy program, the government puts up much of the cost of having ships built in U.S. yards. And under new regulations, the balance can be fully financed through government-insured mortgages.

- **New Design**—For the new fleet, however, Grace is designing ships that, says Lewis Lapham, president of the line, will have the first major change in cargo-handling since the Phoenicians.

Today, about 55% of all ship operating cost comes in cargo handling. So Grace plans to build container ships. Instead of the standard horizontal holds, the new vessels will have vertical shafts, with cargo packed in sealed containers, loaded and unloaded by industrial type traveling cranes, instead of the standard winch and boom. The method was pioneered by Pan-Atlantic Steamship Corp., a coastal line, but Grace will be the first company to at-

tempt it for intercontinental traffic.

Since the North-South traffic is largely package goods going south and bulk loadings—ore, minerals, fruits—coming north—Grace is adapting the plan to handle package and bulk goods alternately. Lapham estimates the new system will cut cargo handling costs in half.

The new ships will still carry passengers—a trade that Grace likes, and which remains remarkably steady, at around 20,000 a year. Passenger traffic normally accounts for about 10% of the line's revenue, and it is profitable in itself. More important, however, carrying passengers offers advantages in berthing positions in a number of ports—and makes friends for the line's cargo operations.

• **Bone of Contention**—On passengers, Grace competes with itself—through Pan American-Grace Airways, or Panagra. The airline, jointly owned by

Grace and Pan-American, has been a bone of contention between the two companies almost since it was set up in 1928. Panagra, like the Grace Line, serves the west coast of South America, though it does shoot east from Santiago to Buenos Aires. Its northern terminal is at Panama, with through flights to Miami over Pan Am lines, where passengers had to change. A little over a year ago, one-plane trips through to New York were set up via interchange agreements with National Airlines.

Since the beginning of the joint line, Grace has been agitating for extension of Panagra's own route through to New York. Pan Am, which likes Panagra as a west coast supplement to its own east coast service, but doesn't want it in direct competition on the northern routes, has been adamant against extension. The argument has roiled through the Civil Aeronautics Board and the courts for a generation,

and is still at a stalemate.

• **Prestige Value**—Panagra has never made any real money for Grace. Competition is intense—from Braniff, KLM, Canadian-Pacific, and about eight South American local lines that can and do undercut the major carriers, and there isn't enough business now to go around. But Grace won't back down—or out.

For one thing, Grace considers the airline a logical extension of its transportation business—and its prestige value is an important asset where the company does business in South America. Besides, Peter Grace notes, on an original investment of \$500,000 each from the two partners, the line currently owns \$28-million worth of equipment, has a net worth of \$14-million. With South America first growing out of swaddling clothes, he figures the airline's growth should be even more rapid in the future.